

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 NEA-10 PA-01 PRS-01 IO-13
H-01 L-03 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01
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P 060630Z SEP 77

FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 4712
INFO AMEMBASSY SEOUL PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: N/A

TAGS: EAID, EFIN, KS

SUBJECT: PROPOSED ADB LOAN FOR INDUSTRIAL TESTING AND
RESEARCH CENTERS (KOREA)

1. SUMMARY: ADB MANAGEMENT PROPOSES \$17.0 MILLION EQUIVALENT
LOAN FROM ORDINARY CAPITAL RESOURCES TO THE REPUBLIC OF KOREA
TO FINANCE FOREX COST OF UPGRADING AND EXPANDING EXISTING
INDUSTRIAL TESTING AND RESEARCH CENTERS. ROKG BELIEVES THAT
SUCCESS OF EXPORT PROMOTION PLANS DEPENDS ON ESTABLISHMENT OF
A GOOD QUALITY IMAGE FOR KOREAN INDUSTRIAL PRODUCTS WITH LOAN
AND RECOMMENDS FAVORABLE ACTION. GENERAL WASHINGTON GUIDANCE
ON ACCEPTABILITY OF HIGH TECHNOLOGY TRANSFER LOANS AS DEVELOP-
MENT PROJECTS IS ALSO REQUESTED. END SUMMARY.

2. ADB DOC. R85-77 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN
POUCHED ADDRESSEES AUGUST 30. BOARD CONSIDERATION IS SCHEDULED
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FOR SEPTEMBER 20.

3. ADB MANAGEMENT PROPOSING \$17.0 MILLION FROM ORDINARY
CAPITAL RESOURCES TO REPUBLIC OF KOREA FOR AN INDUSTRIAL
PRODUCTS INSPECTION CENTERS PROJECT. PROCEEDS WILL
FINANCE FOREX COST OF: 1) EQUIPPING LABORATORIES AND
WORKSHOPS OF THE NATIONAL INDUSTRIAL RESEARCH INSTITUTE

(NIRI) AND PROVINCIAL INDUSTRIAL TESTING CENTERS (PITCS),
2) CONSULTING SERVICES, 3) OVERSEAS TRAINING, 4) FELLOWSHIPS
AND LIBRARY EXPANSION AND 5) INTEREST AND OTHER CHARGES
DURING LOAN IMPLEMENTATION. PROPOSED TERMS ARE 15 YEARS
AMORTIZATION INCLUDING THREE YEAR GRACE PERIOD, AT 8.3 PER-
CENT INTEREST. ROKG TO BE BORROWER AND INDUSTRIAL ADVANCEMENT
ADMINISTRATION (IAA) TO BE EXECUTING AGENCY.

4. IN ORDER FOR KOREA TO CONTINUE TO PROMOTE EXPORTS, FULL
SCALE INTRODUCTION OF STANDARDIZATION AND QUALITY CONTROL
TECHNIQUES WILL BE NEEDED. GOV'T SUPPORT REQUIRED DURING
FIRST YEARS, UNTIL INDUSTRY UNDERSTANDS ITS SIGNIFICANCE
AND WIDESPREAD ACCEPTANCE HAS BEEN REACHED. IN PARTICULAR,
SMALL AND MEDIUM SCALE INDUSTRIES NEED SUCH HELP BECAUSE
THEY GENERALLY CANNOT AFFORD EITHER QUALITY CONTROL EQUIP-
MENT OR SPECIALIZED STAFF. AN EFFECTIVE EXTENSION SERVICE
HAS TO BE BUILT UP IN ORDER TO EDUCATE THESE INDUSTRIES
IN APPLICATION AND FURTHER DEVELOPMENT OF QUALITY CONTROL
TECHNIQUES. IN 1976 SMALL AND MEDIUM INDUSTRIES EMPLOYED
APPROXIMATELY 40 PERCENT OF THE LABOR FORCE, PRODUCED 30
PERCENT OF VALUE ADDED IN MANUFACTURING AND MINING AND
WERE RESPONSIBLE FOR 35 PERCENT OF NATION'S TOTAL EXPORTS.

5. AMONG OTHER GOALS OF FOURTH FIVE-YEAR ECONOMIC DEVELOP-
MENT PLAN (1977-1981) GOV'T EMPHASIZES UPGRADING OF MANUFACTURING
LINKAGES. TOWARD THIS END TOP PRIORITY WILL BE GIVEN TO
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DEVELOPMENT OF TECHNOLOGY AND SKILLED-LABOR-INTENSIVE
INDUSTRIES, SUCH AS MACHINERY, ELECTRONICS AND SHIP BUILDING.
WITHIN STANDARDIZATION AND QUALITY CONTROL FIELD ITSELF,
GOV'T POLICIES ARE DIRECTED TOWARD FOLLOWING OBJECTIVES: 1)
REGULATION OF INDUSTRIAL DESIGN AND PRODUCTION STANDARDS
FOR ALL INDUSTRIES, 2) ACHIEVEMENT AND MAINTENANCE OF
INTERNATIONALLY ACCEPTABLE QUALITY STANDARDS FOR ALL
INDUSTRIAL PRODUCTS AND 3) PROVISION OF INDUSTRIAL INSPECTION
TESTING AND CALIBRATION SERVICES FOR INDUSTRY.

6. PROPOSEED PROJECT IS DESIGNED TO PROMOTE INDUSTRIAL
STANDARDIZATION AND QUALITY CONTROL ACTIVITIES IN THE
COUNTRY BY UPGRADING AND EXPANDING EXISTING INDUSTRIAL
INSPECTION AND TESTING FACILITIES. PROJECT CONCENTRATES
ON MANY OF BASIC AND MOST OF ADVANCED QUALITY TESTING
FACILITIES IN PUBLIC SECTOR, IN ORDER TO ENABLE BEST
POSSIBLE UTILIZATION OF EQUIPMENT CAPACITIES. THIS IS OF
CONSIDERABLE ECONOMIC IMPORTANCE, AS SEVERAL COMPANIES
OF SAME OR RELATED TECHNOLOGICAL SUBSECTORS CAN JOIN IN
UTILIZATION OF SAME ITEM, WHEREAS IT WOULD BE INEFFICIENT
IF EACH COMPANY WERE TO PURCHASE SEPARATE TESTING EQUIPMENT.

7. PROPOSED PROJECT ENVISAGES REHABILITATION AND EXPANSION OF NIRI FACILITIES LOCATED IN SEOUL AND EIGHT REGIONAL PITCS. MAIN COMPONENTS OF PROJECT INCLUDE FOLLOWING: 1) EQUIPPING OF LABORATORIES AND WORKSHOPS OF NIRI AND PITCS, 2) EXPANSION OF LIBRARY FACILITIES, 3) PROVISION OF CONSULTANT SERVICES, AND 4) PROVISION OF FELLOWSHIPS AND TRAINING FOR TECHNICAL STAFF OF NIRI AND PITCS. IT IS EXPECTED THAT NIRI WILL TRANSFER ITS ROUTINE TESTING AND VERIFICATION FUNCTION TO THE PITCS IN ORDER TO CONCENTRATE AND EXPAND ITS ACTIVITIES ON SPECIALIZED TESTING AND VERIFICATION, RESEARCH WORK AND STAFF TRAINING. NIRI WILL CONTINUE MAINTENANCE OF SECONDARY STANDARDS AND CALIBRATION AND VERIFICATION OF TERTIARY STANDARDS. UNDER THE PROJECT PITCS WOULD BE PROVIDED TESTING AND LABORATORY EQUIPMENT TO ALLOW THEM TO TAKE LIMITED OFFICIAL USE

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OVER WORK THAT WILL BE TURNED OVER TO THEM BY NIRI.

8. TOTAL COST OF PROJECT IS ESTIMATED AT \$31.2 MILLION EQUIVALENT. PROPOSED \$17 MILLION LOAN WOULD INCLUDE 1) \$12.61 MILLION FOREX COST FOR MACHINERY AND EQUIPMENT, 2) \$0.3 MILLION FOR CONSULTANTS, 3) \$0.73 MILLION FOR OVERSEAS TRAINING FELLOWSHIPS, 4) \$0.15 MILLION

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FOR LIBRARY FACILITIES AND REFERENCE MATERIALS, 5) \$1.38 MILLION FOR PHYSICAL CONTINGENCIES AND 6) \$1.83 MILLION FOR PRICE ESCALATION. GOVT WILL PROVIDE \$14.2 MILLION FOR LOCAL CURRENCY COSTS REQUIRED TO IMPLEMENT PROJECT.

9. ALL GOODS FOR PROJECT WILL BE PROCURED IN ACCORDANCE WITH BANK'S GUIDELINES FOR PROCUREMENT. EACH CONTRACT ESTIMATED TO COST EQUIVALENT OF \$100,000 OR MORE WILL BE AWARDED ON BASIS OF INTERNATIONAL COMPETITIVE BIDDING. CONTRACTS ESTIMATED TO COST EQUIVALENT OF LESS THAN \$100,000 WILL BE AWARDED ON BASIS OF QUOTATIONS RECEIVED FROM A REASONABLE NUMBER OF BIDDERS FROM MORE THAN ONE MEMBER COUNTRY OF BANK. WHILE ALL EFFORTS WILL BE MADE TO FORMULATE AS MANY BID PACKAGES AS POSSIBLE FOR INTERNATIONAL COMPETITIVE BIDDING, A FAIRLY LARGE AMOUNT OF EQUIPMENT MAY HAVE TO BE PROCURED THROUGH INTERNATIONAL SHOPPING PROCEDURES. THIS IS DUE TO THE LIMITED OFFICIAL USE

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FACT THAT THERE WILL BE A WIDE VARIETY OF VERY SPECIALIZED RESEARCH AND TESTING EQUIPMENT FOR WHICH THERE WILL BE LIMITED SUPPLIERS. BANK STAFF WILL CAREFULLY REVIEW LISTS OF EQUIPMENT AND SPECIFICATIONS. ABOUT 38 MAN-MONTHS OF FOREIGN CONSULTANT SERVICES WILL BE UTILIZED TO ASSIST IN PREPARATION OF EQUIPMENT SPECIFICATIONS AND TENDER DOCUMENTS, IN BID EVALUATION FOR MACHINERY AND EQUIPMENT, AND IN DOMESTIC AND OVERSEAS TRAINING OF NIRI AND PITC TECHNICAL STAFF IN METROLOGY AND IN MODERN INSPECTION AND TESTING TECHNIQUES. CONSULTANTS WILL BE RECRUITED IN ACCORDANCE WITH BANK'S GUIDELINES ON USES OF CONSULTANTS.

10. IAA, THE EXECUTING AGENCY, IN PART OF MINISTRY OF COMMERCE AND INDUSTRY (MCI). IT WAS ESTABLISHED IN JANUARY 1973 TO PROMOTE AND REGULATE TECHNOLOGICAL QUALITY CONTROL AND STANDARDIZATION OF INDUSTRIAL PRODUCTS. NIRI IS UNDER JURISDICTION OF IAA, AND, WHILE PITCS ARE PRESENTLY UNDER THEIR RESPECTIVE PROVINCIAL GOVTS, THEY WILL BE TRANSFERRED UNDER JURISDICTION OF IAA BEFORE END-1977. ALTHOUGH IAA HAS ONLY A SHORT OPERATIONAL HISTORY, STAFF MEMBERS HAVE MOSTLY BEEN TRANSFERRED FROM MCI WHERE MOST OF IAA DUTIES WERE PREVIOUSLY PERFORMED. BANK CONSIDERS IAA TO BE FULLY CAPABLE TO IMPLEMENT PROJECT WITH SUPPORT OF GOVT.

11. PROJECT IS JUSTIFIED BY BANK ON GROUND OF ITS

IMPORTANCE TO CONTINUING GROWTH OF KOREA EXPORTS. CENTRALIZED LOCATIONS OF TESTING EQUIPMENT IN PROVINCIAL AREAS WILL LEAD TO SUBSTANTIALLY HIGHER UTILIZATION RATES THAN IF COMPANIES BOUGHT THEIR OWN TESTING EQUIPMENT. IMPROVEMENT OF PITC FACILITIES AND EQUIPMENT SHOULD ASSIST GROWTH OF LOCAL INDUSTRIES AND CREATION OF EMPLOYMENT.

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12. USADB COMMENT: BANK DOCUMENT ASSERTS THAT QUALITY CONTROL AND STANDARDIZATION PROGRAM IS NEEDED IN KOREA BUT DOES NOT PROVIDE QUANTITATIVE EVIDENCE. CONSEQUENTLY ECONOMIC QUANTITATIVE JUSTIFICATION IS BASED ON UTILIZATION RATES OF EQUIPMENT AND RESULTANT COST SAVINGS. JUSTIFICATION, THEREFORE, PRESUMES A SUBSTANTIAL QUALITY CONTROL PROBLEM AND HIGH INDUSTRIAL REJECTION RATE. A MORE RELEVANT MEASURE OF BENEFITS OF PROJECT WOULD BE VALUE OF INDUSTRIAL PRODUCTION THAT OTHERWISE WOULD HAVE BEEN REJECTED HAD NOT PROJECT BEEN APPROVED. TO CALCULATE THIS FIGURE, BANK WOULD HAVE TO ESTIMATE CURRENT VALUE OF REJECTED PRODUCTS. STAFF EXPLAINED THAT THEY HAVE EVIDENCE OF SUBSTANTIAL INDUSTRIAL LOSS DUE TO HIGH REJECTION RATES, IN SOME CASES AS HIGH AS 60 PERCENT BUT WAS RELUCTANT (OR MAY HAVE BEEN ASKED NOT TO BY KOREAN COUNTERPARTS) TO PUBLICLY PRESENT STATISTICS THAT WOULD EMBARRASS KOREANS.

13. PROPOSED ADB FUNDING MIGHT BE JUSTIFIED ON BASIS THAT

1) PROJECT WOULD NOT BE ATTRACTIVE TO PRIVATE INVESTORS AND 2) BENEFIT FROM PROJECT WOULD BE REALIZED OVER A RELATIVELY LENGTHY TIME PERIOD, MAKING IT TOO COSTLY FOR GOVT TO BORROW ON PRIVATE MARKET (ESPECIALLY GIVEN GOVT'S LEVEL OF EXTERNAL DEBT). PROJECT WILL ASSIST EFFORTS TOWARD INDUSTRIAL DISPERSAL AND IMPROVE REGIONAL INCOME DISTRIBUTION.

14. AS BANK DOCUMENT STATES, KOREAN PLAN IS TO EXPAND ITS EXPORTS THROUGH PRODUCT DIVERSIFICATION AND INCREASED MARKET PENETRATION. DOCUMENT ALSO INDICATES PROPOSED LOAN DOES PROVIDE A SUBSIDY TO KOREAN INDUSTRY. BANK STAFF FEELS THAT, GIVEN KOREA'S STAGE OF DEVELOPMENT AND THE STRUCTURE OF ITS ECONOMY, PROPOSED LOAN IS NOT ONLY APPROPRIATE BUT INNOVATIVE IN AS MUCH AS IT IS NOT ANOTHER IN A SERIES OF STEEL MILLS, ROADS, HYDRO ELECTRIC

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PROJECTS. ISSUE HERE IS TYPICAL OF MANY OF RAPIDLY GROW-
ING DEVELOPING COUNTRIES; MORE ADVANCED THEY
BECOME THE MORE IMPORTANT TRANSFER OF TECHNOLOGY
PROJECTS BECOMES. IN KOREA'S CASE EXPORT SECTOR IS
LOGICAL CHOICE FOR A TRANSFER OF TECHNOLOGY LOAN.

15. ON TECHNICAL GROUNDS, USADB IS PREPARED TO SUPPORT
PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION. HOWEVER,
USADB WOULD APPRECIATE POLICY GUIDCANCE ON BROAD QUESTION
OF ACCEPTABILITY OF HIGH TECHNOLOGY TRANSFER LOANS FOR
IFI LENDING.

15. REQUEST SEOUL'S COMMENTS FOR NAC AGENCIES,
INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY
1972.
EDMOND

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: RESEARCH, INDUSTRIAL DEVELOPMENT, LOANS
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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Executive Order: N/A
Errors: N/A
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Format: TEL
From: MANILA USADB
Handling Restrictions: n/a
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Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1379320
Secure: OPEN
Status: NATIVE
Subject: PROPOSED ADB LOAN FOR INDUSTRIAL TESTING AND RESEARCH CENTERS (KOREA)
TAGS: EAID, EFIN, KS
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/311b784d-c288-dd11-92da-001cc4696bcc
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